

Impact of Proposed Rail Reorganization in Indiana

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DECLINE OF THE EASTERN RAILROADS

I am writing this because over a period of years and for a variety of reasons the rail system in the eastern United States began a gradual, then rather abrupt decline. I don't think I need to recount the horror stories of the wreck of the Penn Central or the plight of the other bankrupt eastern railroads that have led us to the point we are today. I would like to briefly explain to you what is happening right now, what could happen in the future and some of the things we like and don't like about it.

RAIL REORGANIZATION ACT

I think many will recall early last year that there was a threat of a shutdown of the Penn Central Railroad—first because of the possibility of a strike, then later because it might simply run out of money. The result after much wrangling, and quite a bit of confusion, was a document known as the Rail Reorganization Act which is the congressional effort to carve a new system out of the nation's rail lines east of the Mississippi and north of the Mason-Dixon Line.

U.S. Railway Association Established

It sets up the United States Railway Association which is intended to be a planning, management and policy board of governors—a consolidated rail corporation which is intended to be a direct operating authority. It will make numerous provisions for programs of grants, for rehabilitation of road bed, and for subsidies to be funneled for a variety of purposes through state and local governments. It envisions a role for the profit-making railroads. What it boils down to is that lines, not in the core system as it once was known, either will become the property of profitable railroads or it will be the role of the state, or local governments, or cartels of private shippers, or new railroads to

take up the slack. Where that doesn't apply, we then have abandonment.

DOT Recommendations, ICC Evaluations, Congress Approval

Under provisions of the legislation, the federal Department of Transportation was given 30 days after the enactment of the law to come up with a preliminary recommendation for this system. Then the Interstate Commerce Commission was given the authority of evaluating it and that evaluation commenced in Indianapolis March 11, 1974 with several days of hearings at which literally hundreds of people will make comments about the Department of Transportation's preliminary proposal.

Sometime in May the ICC put all of this together, and gave an evaluation of the plan to the Board of Directors of the U.S. Railway Association. USRA will then write a so-called preliminary system plan which is due to be out about November 1, 1974. Then it will undergo further revision and public hearing. A final system plan goes to Congress in May 1975 for final approval. If Congress doesn't like it, they've got to go back to the drawing boards, come up with a new one within 60 days and if Congress does not like that revision, then the process is repeated.

DOT RECOMMENDATIONS

Abandonment of 37 Percent of Indiana Tracks

What is causing recent comment, and in many cases outright consternation, is this preliminary recommendation which in the words of personnel of the federal Department of Transportation is their best thinking about what the form and function of the eastern rail system should be. Thirty-seven percent of Indiana's rail mileage could be abandoned. It is described in the report as potentially in excess. We are talking about 2,350 miles of track.

I think all of us would agree that there is a need for a viable and a modern rail system as part of a total transportation network in this country. But beyond that basic agreement, we start having problems as a state administration with the Department of Transportation's plan.

Keep High Density, Long Haul, Main Line Networks

The thrust of the system that's been pieced together by DOT is a high density, long haul, main line network that quite often doesn't relate to some economic needs—both regional and local—some emerging transportation trends, and some corollary matters such as energy.

One person in the East described it today: "Like Civil War doctors, with an ill patient, DOT has determined that the remedy is amputation." There are a number of factors that we have looked at already and we are still in the process of getting some rather comprehensive traffic data.

SERVICE HISTORY OF THE RR

Drop Unprofitable Branch Lines

Let's first examine the matter of service. Now there has been a problem in the rail industry—at least in recent years—that whenever a particular branch line or a particular type of service became marginal or unprofitable, the effort was made to dump it. Now we in Indiana don't want to saddle any new rail system with major segments of routes or responsibilities that offer no hope of profitability, but I think many of you with an understanding of business know quite well that very few businesses have the luxury of dealing only in specific product lines in which every element is a profit-maker. If you manufacture socket wrenches you may make money on five sizes but you make ten sizes because that's what the set calls for and because you've got to be competitive.

Every business has its loss leaders and I don't think we can sit idly by and—based upon some questionable revenue data which I will get into in a minute—permit the rather substantial destruction of the rail system without any real serious thought to an alternative. The Department of Transportation admits that much of the traffic data and the economic information upon which they've based their conclusions are out of date or in some respects questionable. We question as well some of the yardsticks they apply.

Past Quality of Service Drove Customers Away on Potentially Profitable Lines

First of all, if you look at the recent history of the Penn Central Railroad, little effort was made to generate traffic and the quality of service was such to literally drive customers away from rail. I think some figures from Madison, Indiana which sits at the tail-end of a 19-mile branch line of the Penn Central illustrates the point. Four years ago the line was handling almost 1,500 carloads of freight out of the City of Madison. That figure last year dropped to just under 1,100 and the reason was simple. Where there was supposed to have been three trains into Madison a week there were, in fact, two; shipments were getting lost; derailments were delaying movement. So the

quality of service alone took what was once a reasonable branch line operation and turned it into a very marginal one. As a result, based on DOT's criteria, it's not in the system today.

ICC 34-CAR MINIMUM RULE

The Interstate Commerce Commission always had a basic yardstick that it applied to whether or not a rail line was worth keeping. It's the well-known 34-car rule which is a measurement which holds that fewer than 34 carloads per mile per year on a route segment probably doesn't warrant retention. That doesn't really make a lot of sense when you look at some Indiana rail lines.

Some Indiana Grain Haul Lines May Be Dropped

We've got a lot of seasonal traffic, grain hauling being a classic example. If you apply the 34-car rule, if you apply the generalized maintenance and rehabilitation costs that DOT or ICC or the railroads themselves would apply here, you would say these lines are not profitable. But the facts are that they are only being used intensively perhaps one or two months. The overhead is substantially less. If you take that particular route segment and judge it on its own merits you do have something worth keeping.

Indiana's Ag Exports Going Up

I was given some statistics which point to a rather dramatic upturn in agricultural exports in Indiana just in a period of six or seven years. We are now the eighth leading export state in the country overall and agriculture accounts for a very high volume of that. How is all of this going to get from the farm overseas?

TRUCKS NO SOLUTION FOR GRAIN HAULING

The conclusion that the Department of Transportation has reached is simple. Where we tear up the rails, trucks will suffice. Now in some cases that is a correct assumption. I think we are seeing in a number of industries, and in a number of uses, a shifting to truck transportation. In many respects it makes sense. In agriculture dealings, they are now going direct from the farm—bypassing the elevator—and doing away with an intermediate transshipment point in that process. But when you talk about the volumes of grain to be hauled, that is not a solution.

Truckers Claim Losses on Short Hauls

I think you who know far more about the state highway network than I can appreciate some of the physical problems in turning over

massive amounts of what is now carried by rail to the trucking industry. The trucking industry itself is quite candid in saying that while there are certain of these transportation responsibilities they would like to pick up, they are losing their fanny on short hauls, too.

DOT Did Not Consider Truck Short Haul Losses

This is something that DOT really didn't take into account. And if you will look at the settlement in the recent Independent Truckers dispute—a six percent surcharge based upon the value of the cargo—you see a nice incentive to haul television sets but virtually no incentive at all to deal with grain or coal or any other bulk commodity.

OTHER TECHNICAL FACTORS NOT CONSIDERED BY DOT

There are numerous other technical factors that relate directly to the rail industry, such as implications of interchange traffic or of problems in switching and classification which are not addressed by this report and would cause more problems than DOT is willing to admit.

Nothing on Midwest Passenger Needs in DOT Report

The 87-page narrative, that accompanied the two volumes of maps that make up this report, devoted two and one-fourth pages to passenger service at a time when the country has expressed a substantially increased interest in revitalizing passenger service and when Congress—speaking for the country—has appropriated millions upon millions of dollars to bring it about. But of that two and one-fourth pages of the 87 no space is devoted to midwestern passenger needs; it's strictly limited to the northeastern corridor. These are points that in more definite statistical form will be made by scores of witnesses at the hearing and in conclusions that will be drawn from some traffic analyses that we are doing right now.

DOT CLAIMS INDIANA WOULD LOSE ONLY SIX PERCENT FREIGHT CAPACITY

The conclusion of the Department of Transportation is that Indiana would lose only six percent of its actual freight hauling capacity as it exists today. That again ignores the fact that Penn Central service has declined substantially because of the low quality of service. While we are still gathering our information, we would feel rather confident in challenging that six percent. We don't know what it would be yet, but it would be substantially higher.

PROFITABLE RAILROADS MAY HAVE TO GIVE UP SOME ROUTES

I mentioned earlier that the profitable railroads are supposed to have a piece of this action. We are not yet sure what it is, because the plan, as it has been presented and discussed publicly, brings about rather wholesale abandonment of routes maintained by the profitable railroads—routes which they really would just as soon not give up. But the act is not clear enough and the plan is not clear enough to lead us to a firm conclusion that the profitable roads will in fact have enough of the action to keep going. I think you can take a reasonable view that it won't and that, whether by intent or design, this proposal, if it becomes the final system, will be the first step towards nationalization of the eastern railroads. And I don't think the trucking industry or any other transportation mode would be particularly interested in seeing that happen. And I am not going out of my way to throw rocks at DOT but we believe that this will be the eventual result of this plan. That alone makes it unacceptable. The real crux of it is, that despite this fine talk about a role for the profitable railroads, will they be given a godfather's choice? A railroad might say: "No, we don't want to abandon a particular line." DOT would say: "Fine, you are not going to get any of the rehabilitation money for some of the others." There are many pressures that can be applied and DOT wants this plan. This is not a trial balloon. It is something they would very much like to impose.

ENTIRE TRANSPORTATION SYSTEM NEEDS REORGANIZATION

Well, what do we do about it? First of all, there is going to be the public outcry which began in Washington at some hearings and will begin in Indianapolis. But I think we've got to look a little bit beyond a specific issue of a specific abandonment.

Look at some historical factors in the American transportation system, which many of you are fully aware of. We had a pattern of competing companies in the same mode devising transportation systems that may have made sense at one time but don't any more. We have competing companies within competing modes that have further complicated the whole situation. And at a time when there are so many unique opportunities in transportation, we find that the system really doesn't tie together. I'm not talking just about railroads because we cannot look at the railroad reorganization without looking at the potential for water transport or the realities of trucking. We are

going to have to address all of these simultaneously. I think there are some obvious conclusions that need to be reached.

These systems have to be tied together so we can take advantage of containerization, and highways may play a key role in that. There has got to be an improved regulatory climate for all modes at all levels of government. We have been suffocating transportation in this country for years with some very arbitrary regulatory judgments. We have got to recognize the service needs of the American businessman and the American passenger and the American consumer and go beyond some very narrow and questionable revenue yardsticks. We will have to allocate money to rehabilitate certainly a part of the rail system.

There is a proposal now for two billion dollars. Estimates by most people who follow that industry closer believe that is roughly 25 percent of what might be needed. And I think at a time when people are talking about monorails and hydrofoils and all sorts of the more exotic transportation opportunities which from a financial public policy standpoint makes a lot more sense to determine just what progress can be made with conventional technology involving minor changes. I don't think we need to go overboard with experimentation in many areas. In some we certainly need to do so, particularly in our cities.

CREATIVE TRANSPORTATION MANAGEMENT NOW

It is also a time for creative transportation management, which in the rail industry often has been lacking. Many railroads today do not have centralized accounting procedures; you have to go all the way to the chairman of the board before you find somebody who is responsible for seeing that the line runs at a profit. That is one of the reasons they are in the trouble they are in and it obviously has got to be turned around. But transportation management has to be improved substantially, not only in rail.

Before the fuel crisis and, perhaps, even now, we are headed for some Penn Central's in the aviation industry, and there are some of those people who still aren't out of the woods and don't show any indication of improving their position. There obviously are some unique capabilities of the trucking industry. It perhaps is the most flexible. I think the trucking industry would agree to the need for far more creative management.

I think at this time in American society, when we are grappling with so many things, we find there are some common denominators. The one I discovered was energy and I found in dealing over the last year with some energy problems that I got a good school-of-hard-knocks

education to the American business system and the American transportation system and you can just watch the dominos fall. While we are addressing the energy crisis, and transportation burns up 25 percent of the energy, let's deal with the transportation problem. Tying those together, let's address the question of industrial productivity, because those two factors bear very substantially on it. I think the governor several months ago made the comment that when you have a lemon, make lemonade.

CONCLUSION

Rather than just trying to deal with one thread or one problem, the time has come for us to look at the American economic system and what makes it function and why we are not as strong in world markets as we would like to be and why it takes longer for a shipment of goods to get from Seattle to Chicago than it does to go much farther from Seattle to Tokyo. These are questions that are far beyond the narrow scope of what is going to occur in some public hearings in Indianapolis. But they are considerations all of us have to address.